# BERWICK

## Retirement Communities Ltd.

2003/2004
Annual Report

*Berwick House, Victoria, BC*


# THE RETIREMENT RESIDENCE THAT SET THE STANDARD.

*Berwick House was our first residence, established in 1989. Our commitment to quality of life has been the governing standard. From the dining experience, to spacious accommodations, to organized social activities – Berwick House excels at delivering more than what is expected. Licensed care services are also available.*

BERWICK
RETIREMENT
COMMUNITIES
LTD.

## PRESIDENT'S REPORT TO SHAREHOLDERS

This fiscal year has been one devoted to consolidating and improving the efficiency of our operations, as well as making substantial physical improvements to Berwick House.

The construction of the "Great Room" complete with solarium, country kitchen, games area, computer stations and lounge was enthusiastically received by our residents. Nearing completion is the new entryway and fireplace lounge on the second floor, which incorporates the new bistro and tuck shop.

At the same time, we are pursuing our plans to build two more Berwicks. In March, the company acquired all the outstanding shares of 621437 BC Ltd., which owns 4.5 acres of land in Saanich, and a re-zoning application is underway to construct our largest Berwick Retirement Complex.

The re-zoning of another outstanding site in Comox, B.C. is almost complete and we expect construction of the Comox Berwick to commence in October of this year.

On the operations side, our revenues increased 52% to more than $12 million and net operating income before amortization increased 8% to $1.2 million.

Again, I wish to extend our thanks to our management group and all the staff who have consistently provided the highest level of care and compassion that has improved the quality of life for all of our residents.

G.H.C. Denford

Gordon Denford
President
Berwick Retirement Communities Ltd.

July 30, 2004

## BASIS OF PRESENTATION

The following discussion and analysis should be read in conjunction with the consolidated financial statements of the Company for the years ended April 30, 2004 and 2003, and the notes pertaining thereto.

Berwick Retirement Communities Ltd. owns and operates three first class seniors' retirement residences in British Columbia:

*Berwick House*, located in Victoria, was built in 1989 and commenced operations in December of that year. Berwick House consistently maintains an average occupancy in excess of 95%.

*Berwick on the Lake* is a picturesque 3.25 acre waterfront facility located in Nanaimo. It was completed in May 1999 and also maintains an average occupancy in excess of 95%.

*Berwick on the Park* sits high upon the hillside providing magnificent view of Kamloops. This residence was only completed in September of 2002 and already maintains an average occupancy in excess of 95%.

In addition, the Company purchased property in the current year in Saanich, British Columbia where it intends to construct and operate another seniors' retirement residences. Draft plans and re-zoning applications have recently been filed with the Corporation of Saanich.

Non-core real estate assets with a net book value of $1.9 million are reflected on the Company's 2004 audited balance sheet. As April 30, 2004 these assets included a commercial and residential real estate property in Edmonton, Alberta and land held for future development in Nanaimo, British Columbia.

## RESULTS OF OPERATIONS

Revenue from rental income increased 52% to $12 million for the year ended April 30, 2004 from $8 million for the previous year. This significant increase in rental income is directly related to the inclusion of Berwick on the Park operations in the Statement of Operations and Deficit. Net operating income before amortization for the current year increased 8% to $1.2 million, compared with the prior year. Amortization increased 76% to $1.5 million from $800,000 in the prior year due to the inclusion of Berwick on the Park. The application of this resulted in a net loss for the year of $261 thousand compared with a net income of $300 thousand the prior year.

In the prior year a portion of the management fees and interest expense were included in the cost of construction associated with Berwick on the Park. The current years financial statements reflect the fact that these costs are now included in the Statement of Operations and Deficit.

## FINANCIAL POSITION

*Construction- in- Progress*

Construction-in-progress consists of the land and building acquired by the company when it purchased all of the issued and outstanding shares of 61437 B.C. Ltd in March 2004, as well as the initial costs incurred with respect to the planning and development of the Company's fourth facility in Saanich, British Columbia. It is anticipated that the construction of this facility will be complete in 2006.

*Property, plant and equipment*

The net book value of property, plant and equipment at April 30, 2004 was $33.7 million, compared to $34.4 million at April 30, 2003. With no material property acquisitions, this represents minor additions to the three facilities less amortization for the year ended April 30, 2004.

*Due from Related Companies*

During the year, related companies repaid $1.4 million of the monies borrowed from the Company. The remaining debt of $177,000 is unsecured, bears interest at 4% per annum and has no fixed terms of repayment.

*Segregated Cash*

At the time when Berwick on the Park was re-financed from a construction loan to a conventional first mortgage, the financial institution required that the Company maintain a segregated cash collateral account until certain operating and debt ratios were achieved. During the current year, these operating and debt ratios were met and the Company is no longer required to maintain the segregated cash collateral account.

*Mortgages Payable*

Mortgages payable increased to $35.2 million at April 30, 2004 from $34.3 million at April 30, 2003. A new 1st mortgage in the amount of $1.5 million was provided as security in conjunction with the purchase of the Saanich, British Columbia property.

## FINANCIAL POSITION (*Cont'd…)*

*Liquidity and Capital Resources*

The Company's cash flow for the year ended April 30, 2004 and 2003 is summarized as follows:

| | **2004** | 2003 | Change |
|---|---|---|---|
| | *(thousands of dollars)* | | |
| Cash flow provided by operations | **902** | 1,793 | (891) |
| Cash flow provided by investing activities | **(2,670)** | (9,419) | 6,749 |
| Cash flow provided by financing activities | **584** | 8,658 | (8,074) |
| Increase (decrease) in cash | **(1,184)** | 1,032 | (2,216) |

The Company intends to concentrate its operations in the seniors' retirement residences industry. It estimates that capital expenditures pertaining to future development activities, debt service requirements, operating and general and administrative expenses will be funded by cash flow from operations, equity financing and borrowings from financial institutions.

## RISK MANAGEMENT

*Seniors' Retirement Residences Industry*

The Company's three seniors' retirement residences are subject to the normal operating risks common to the industry, including local economic conditions and competition from other owners and developers, which may impact supply and demand for seniors' housing requirements.

The Company manages these risks by ensuring that the highest quality of service and care is provided to its residents in its well-designed, well-maintained first class residences.

**RISK MANAGEMENT *(Cont'd…)***

*Interest Rate Risk*

Interest rate volatility in the marketplace cannot be predicted with certainty. The company has minimized this risk with large, long-term mortgages at low fixed rates. The Berwick on the Lake first mortgage is at 6.85% and matures on August 1, 2010. The first and second mortgages registered on Berwick House were renewed effective July 1, 2002 at a rate of 5.825% and 6.478% consecutively, both due September 1, 2006. The Berwick on the Park first mortgage is at 5.936% and matures on September 1, 2007.

*Development Risk*

The Company intends to continue to build and operate new facilities, which carry a certain risk that projected financial returns may not be achieved. The Company manages this risk through detailed evaluation of each new development separately and ensuring certain vital criteria have been met. Design and management experience gained through 14 years of operations ensures maximum comfort and efficient care provision for both residents and staff.

## AUDITORS' REPORT

To the Shareholders of
Berwick Retirement Communities Ltd.

We have audited the consolidated balance sheets of Berwick Retirement Communities Ltd. as at April 30, 2004 and 2003 and the consolidated statements of operations and deficit and cash flows for the years then ended. These financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at April 30, 2004 and 2003 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

**"DAVIDSON & COMPANY"**

Chartered Accountants

Vancouver, Canada

June 11, 2004



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Telephone (604) 687-0947 Fax (604) 687-6172

**BERWICK RETIREMENT COMMUNITIES LTD.**
CONSOLIDATED BALANCE SHEETS
AS AT APRIL 30

| | 2004 | 2003 |
|---|---|---|
| **ASSETS** | | |
| Land held for future development | $ 1,340,496 | $ 1,330,698 |
| Real estate properties (Note 5) | 564,666 | 541,386 |
| Construction-in-progress (Note 6) | 3,040,510 | 16,921 |
| Property, plant and equipment (Note 7) | 33,664,885 | 34,385,769 |
| Deferred charges (Note 8) | 1,136,158 | 1,640,189 |
| Due from related companies (Note 9) | 176,801 | 1,603,988 |
| Other receivables | - | 61,831 |
| Accounts receivable | 202,612 | 208,058 |
| Segregated cash (Note 11) | - | 1,268,870 |
| Cash | 131,028 | 46,275 |
| | $ 40,257,156 | $ 41,103,985 |
| **LIABILITIES AND SHAREHOLDERS' EQUITY** | | |
| **Liabilities** | | |
| Debt on real estate property (Note 10) | $ 160,740 | $ 168,546 |
| Mortgages payable (Note 11) | 35,195,128 | 34,339,232 |
| Due to related party (Note 12) | 500,000 | 500,000 |
| Future income tax liabilities (Note 13) | 694,400 | 731,700 |
| Construction accounts payable | 28,804 | 848,294 |
| Accounts payable and accrued liabilities | 1,153,049 | 1,465,601 |
| Bank indebtedness (Note 14) | 377,517 | 642,098 |
| | 38,109,638 | 38,695,471 |
| **Shareholders' equity** | | |
| Capital stock (Note 15) | 6,490,604 | 6,490,604 |
| Contributed surplus | 130,000 | 130,000 |
| Deficit | (4,473,086) | (4,212,090) |
| | 2,147,518 | 2,408,514 |
| | $ 40,257,156 | $ 41,103,985 |

**Nature of operations** (Note 1)
**Contingencies** (Note 20)

**On behalf of the Board:**

__________ Director __________ Director

The accompanying notes are an integral part of these consolidated financial statements.

**BERWICK RETIREMENT COMMUNITIES LTD.**
CONSOLIDATED STATEMENTS OF OPERATIONS AND DEFICIT
YEAR ENDED APRIL 30

| | 2004 | 2003 |
|---|---|---|
| **REVENUES** | | |
| Rent | $ 12,121,960 | $ 7,986,630 |
| Real estate sales | 27,557 | 124,893 |
| Management fees | 3,858 | 17,484 |
| Interest income | 63,971 | 72,987 |
| | 12,217,346 | 8,201,994 |
| **EXPENSES** | | |
| Amortization of property, plant and equipment | 965,339 | 456,438 |
| Amortization of deferred charges | 504,031 | 373,581 |
| Amortization of income-producing properties | 6,300 | 6,563 |
| Cost of real estate sales | 22,804 | 107,613 |
| Food costs and supplies | 1,254,714 | 786,261 |
| General and administrative | 871,048 | 687,805 |
| Interest (Note 17) | 2,155,220 | 1,313,534 |
| Management fees | 715,227 | 215,878 |
| Property taxes and utilities | 722,965 | 436,180 |
| Wages and employee benefits | 5,297,994 | 3,647,883 |
| | 12,515,642 | 8,031,736 |
| **Income (loss) before other income and taxes** | (298,296) | 170,258 |
| **Gain on sale of property, plant and equipment** | - | 5,028 |
| | (298,296) | 175,286 |
| **Taxes** | | |
| Large corporation tax | - | (63,551) |
| Future income tax recovery (Note 13) | 37,300 | 176,100 |
| | 37,300 | 112,549 |
| **Net income (loss) for the year** | (260,996) | 287,835 |
| **Deficit, beginning of year** | (4,212,090) | (4,499,925) |
| **Deficit, end of year** | $ (4,473,086) | $ (4,212,090) |
| **Basic and diluted earnings (loss) per common share** | $ (0.0171) | $ 0.0192 |
| **Weighted average number of common shares outstanding** | 15,274,292 | 14,983,693 |

The accompanying notes are an integral part of these consolidated financial statements.

**BERWICK RETIREMENT COMMUNITIES LTD.**
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEAR ENDED APRIL 30

| | 2004 | 2003 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net income (loss) for the year | $ (260,996) | $ 287,835 |
| Items not affecting cash: | | |
| Amortization of property, plant and equipment | 965,339 | 456,438 |
| Amortization of deferred charges | 504,031 | 373,581 |
| Amortization of income-producing properties | 6,300 | 6,563 |
| Future income tax recovery | (37,300) | (176,100) |
| Gain on sale of property, plant and equipment | - | (5,028) |
| Real estate properties | 20,831 | 103,294 |
| Change in non-cash operating working capital | (295,686) | 746,603 |
| Net cash provided by operating activities | 902,519 | 1,793,186 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Due from related companies | 1,427,187 | (713,752) |
| Additions to deferred charges | - | (725,104) |
| Additions to property, plant and equipment | (244,455) | (637,036) |
| Construction-in-progress | (3,023,589) | (6,821,446) |
| Construction accounts payable | (819,490) | (550,908) |
| Land held for future development | (9,798) | (6,471) |
| Proceeds from promissory note receivable | - | 30,000 |
| Proceeds on sale of property, plant and equipment | - | 5,800 |
| Net cash used in investing activities | (2,670,145) | (9,418,917) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Bank indebtedness | (264,581) | 244,792 |
| Proceeds from loan payable | - | 7,366,839 |
| Repayment of loan payable | - | (11,753,934) |
| Repayment of debt on real estate properties | (7,806) | (7,210) |
| Repayment of due to related party | - | (50,000) |
| Proceeds from mortgages payable | 1,500,000 | 24,000,000 |
| Repayment of mortgages payable | (644,104) | (11,302,595) |
| Capital stock issued for cash | - | 160,480 |
| Net cash provided by financing activities | 583,509 | 8,658,372 |

*- continued -*

The accompanying notes are an integral part of these consolidated financial statements.

**BERWICK RETIREMENT COMMUNITIES LTD.**
CONSOLIDATED STATEMENTS OF CASH FLOWS
YEAR ENDED APRIL 30

| | 2004 | 2003 |
|---|---|---|
| *Continued...* | | |
| **Change in cash during the year** | (1,184,117) | 1,032,641 |
| **Cash, beginning of year** | 1,315,145 | 282,504 |
| **Cash, end of year** | $ 131,028 | $ 1,315,145 |
| **Cash consisted of:** | | |
| Segregated cash | $ - | $ 1,268,870 |
| Cash | 131,028 | 46,275 |
| | $ 131,028 | $ 1,315,145 |
| **Supplemental information:** | | |
| Interest paid | $ 2,181,527 | $ 1,980,513 |
| Income taxes paid | - | - |

The significant non-cash transaction for the year ended April 30, 2004 consisted of the Company receiving a real estate property with a cost of $50,411 as settlement for fees and commissions owed to the Company (Note 4).

There were no significant non-cash transactions for the year ended April 30, 2003.

The accompanying notes are an integral part of these consolidated financial statements.

## 1. NATURE OF OPERATIONS

Berwick Retirement Communities Ltd. (the "Company") is incorporated under the Business Corporations Act of Alberta and its primary business activities are the development and operation of congregate care rental housing and the development of commercial and residential real estate properties for sale or lease. The Company's activities are concentrated in British Columbia and Alberta.

## 2. SIGNIFICANT ACCOUNTING POLICIES

The Company's accounting policies and its standards of financial disclosure are in accordance with Canadian generally accepted accounting principles and the recommendations of the Canadian Institute of Public Real Estate Companies ("CIPREC").

### Principles of consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries. These consolidated financial statements also include the Company's proportionate share of the assets, liabilities, revenues and expenses of its interest in the Gainsborough Joint Venture ("Gainsborough"). During the year, the Gainsborough operations were wound up. All significant inter-company balances and transactions have been eliminated upon consolidation.

### Use of estimates

The preparation of consolidated financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the consolidated financial statements and the reported amount of revenues and expenses during the year. Significant areas requiring the use of management estimates relate to the determination of net realizable value of land held for future development, real estate properties, deferred charges and long-term receivables. In addition, the determination of useful lives for amortization purposes is subject to significant management estimates. Actual results could differ from those estimated.

### Property, plant and equipment

Property, plant and equipment are recorded at cost less accumulated amortization. Amortization is provided for at the following annual rates and methods:

| | |
|---|---|
| Buildings | 4% declining balance or 60 years straight-line |
| Paving | 8% declining balance |
| Furniture, equipment and other | At rates between 20% and 100% declining balance |

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

### Deferred charges

Pre-operating costs consist of net operational expenses and carrying costs related to congregate care facilities incurred until such time as the facility is considered to be at a reasonable level of occupancy and operating at a level where profit could be expected. The costs are amortized on a straight-line basis over a period of 5 years.

Deferred financing costs consist of costs incurred to obtain long-term debt and are deferred and amortized on a basis consistent with the repayment terms of the underlying debt.

Deferred costs incurred by Gainsborough are amortized on a pro-rata basis as the units are sold.

The costs of lease inducements are deferred and amortized over the term of the lease.

### Land held for future development and real estate properties

Land held for future development and real estate properties are carried at the lower of cost and estimated net realizable value. Cost includes the cost of land, development and construction costs, carrying costs and other direct costs associated with each development. Carrying costs include interest on funds borrowed as well as property taxes.

### Construction-in-progress

Construction-in-progress, which consists of congregate care facilities under construction, includes land costs, interest and financing costs on funds borrowed during construction, materials, direct and indirect labour, and an appropriate allocation of administration overhead. These costs are capitalized until the end of the construction period at which time they are transferred to property, plant and equipment when the property is substantially complete.

### Interest

Interest, other than that directly related to land held for future development, real estate properties and construction-in-progress, is charged to operations.

### Revenue recognition

Revenue from rental properties is recognized once a property is deemed to be completed. Completion is deemed to occur once a reasonable level of occupancy has been achieved. Until that date, income or losses from the rental properties are recorded against or included as deferred charges.

Revenues from real estate sales are recognized at the time of closing.

## 2. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

### Income taxes

Future income taxes are recorded using the asset and liability method whereby future tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment or enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

### Stock options

Effective May 1, 2002, the Company adopted the new CICA Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments", which recommends fair value-based methodology for measuring compensation costs. The new section also permits, and the Company adopted, the use of the intrinsic value-based method, which recognizes compensation cost for awards to employees only when the market price exceeds the exercise price at date of grant, but requires pro-forma disclosure of earnings and earnings per share as if the fair value method had been adopted.

### Foreign currency translation

Transactions denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the related transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at exchange rates in effect at the balance sheet date. Exchange gains and losses arising on translation are included in the results of operations.

### Earnings (loss) per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period.

Basic earnings (loss) per share is calculated using the weighted-average number of shares outstanding during the year.

At April 30, 2004, the total number of potentially dilutive shares excluded from earnings (loss) per share was 1,300,000 (2003 – 1,000,000).

### Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

## 3. ACQUISITION

Effective March 22, 2004, the Company acquired all of the issued and outstanding common shares of 621437 B.C. Ltd. ("621437") for a purchase price of $2,860,000, of which $1,500,000 was financed through a first mortgage (Note 11).

The acquisition of 621437 has been accounted for using the purchase method and accordingly, these consolidated financial statements include the results of its operations from the date of acquisition.

The total purchase price of $2,860,000 was allocated as follows:

| | |
|---|---|
| Land | $ 2,802,800 |
| Building | 57,200 |
| Total purchase price | $ 2,860,000 |

The land and building acquired have been included as construction-in-progress (Note 6).

## 4. UNINCORPORATED JOINT VENTURE

The Company's 22.23% proportionate share in Gainsborough, an unincorporated joint venture, includes:

| | 2004 | 2003 |
|---|---|---|
| Assets | $ - | $ 39,296 |
| Liabilities | - | 67,405 |
| Revenues | 27,751 | 129,652 |
| Expenses | 29,805 | 122,328 |
| Net earnings (loss) | (2,054) | 7,324 |
| Cash flows provided by (used in) operating activities | (2,021) | 113,378 |
| Cash flows used in investing activities | - | (116,000) |

During the current year, the assets of the joint venture were disposed of and its operations were wound up.

On the winding up of its operations, Gainsborough transferred a real estate property with a cost of $50,411 as settlement for fees and commissions owing to the Company as the joint venture manager.

## 5. REAL ESTATE PROPERTIES

| | 2004 | 2003 |
|---|---|---|
| Income-producing properties: | | |
| Land, at cost | $ 44,798 | $ 44,798 |
| Buildings, at cost | 193,105 | 193,105 |
| | 237,903 | 237,903 |
| Less accumulated amortization | (41,900) | (35,600) |
| | 196,003 | 202,303 |
| Housing under construction and for sale | 368,663 | 339,083 |
| | $ 564,666 | $ 541,386 |

## 6. CONSTRUCTION-IN-PROGRESS

The following amounts relating to the construction of the Company's congregate care facility in Saanich, British Columbia, have been included in the cost of construction-in-progress and are recorded on a cumulative basis:

| | 2004 | 2003 |
|---|---|---|
| Land | $ 2,802,800 | $ - |
| Building | 57,200 | - |
| Construction and development costs | 174,624 | 16,921 |
| Interest | 5,886 | - |
| | $ 3,040,510 | $ 16,921 |

## 7. PROPERTY, PLANT AND EQUIPMENT

| | 2004 | | | 2003 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value | Cost | Accumulated Amortization | Net Book Value |
| Land | $ 2,187,168 | $ - | $ 2,187,168 | $ 2,187,168 | $ - | $ 2,187,168 |
| Buildings and paving | 32,942,647 | 2,803,906 | 30,138,741 | 32,799,870 | 2,213,288 | 30,586,582 |
| Furniture, equipment and other | 2,685,499 | 1,346,523 | 1,338,976 | 2,583,821 | 971,802 | 1,612,019 |
| | $ 37,815,314 | $ 4,150,429 | $ 33,664,885 | $ 37,570,859 | $ 3,185,090 | $ 34,385,769 |

Property, plant and equipment consist primarily of the Company's congregate care facilities.

## 8. DEFERRED CHARGES

| | 2004 | | | 2003 | | |
|---|---|---|---|---|---|---|
| | Cost | Accumulated Amortization | Net Book Value | Cost | Accumulated Amortization | Net Book Value |
| Pre-operating costs | $ 2,179,454 | $ 1,301,443 | $ 878,011 | $ 2,179,454 | $ 865,552 | $ 1,313,902 |
| Financing costs | 391,210 | 133,063 | 258,147 | 391,210 | 74,753 | 316,457 |
| Joint venture costs | 539,181 | 539,181 | - | 539,181 | 529,351 | 9,830 |
| Leasing costs | - | - | - | 571,497 | 571,497 | - |
| | $ 3,109,845 | $ 1,973,687 | $ 1,136,158 | $ 3,681,342 | $ 2,041,153 | $ 1,640,189 |

During the current year, the Company wrote-off fully amortized leasing costs with an original cost of $571,497.

## 9. DUE FROM RELATED COMPANIES

The amounts due from corporations controlled by two directors of the Company are unsecured, bear interest at 4% per annum and have no fixed terms of repayment.

## 10. DEBT ON REAL ESTATE PROPERTY

| | 2004 | 2003 |
|---|---|---|
| Mortgage on an income-producing property: | | |
| Bearing interest at 6% per annum, due July 1, 2004, payable in blended monthly payments totaling $1,468 | $ 160,740 | $ 168,546 |

The Company has provided a registered first mortgage on the income-producing property and assignment of rents and all perils insurance as security for the mortgage.

## 11. MORTGAGES PAYABLE

| | 2004 | 2003 |
|---|---|---|
| First mortgage, due January 4, 2005, bearing interest at prime + 1% per annum, interest only payable monthly. This mortgage relates to the acquisition of land and building included in construction-in-progress (Notes 3 and 6). | $ 1,505,886 | $ - |
| First mortgage, due September 1, 2006, bearing interest at 5.825% per annum, blended monthly payments of $53,418. | 7,226,418 | 7,443,486 |
| Second mortgage, due September 1, 2006, bearing interest at 6.478% per annum, blended monthly payments of $32,765. | 4,200,336 | 4,316,538 |
| First mortgage, due September 1, 2007, bearing interest at 5.936% per annum, blended monthly payments of $76,345. | 11,686,695 | 11,908,513 |
| First mortgage, due August 1, 2010, bearing interest at 6.855% per annum, blended monthly payments of $67,770. | 10,575,793 | 10,670,695 |
| | $ 35,195,128 | $ 34,339,232 |

In accordance with a mortgage agreement, the Company was required to maintain a segregated cash collateral account until certain operating and debt ratios were achieved. During the current year, these operating and debt ratios were met and the Company is no longer required to maintain the segregated cash collateral account.

The Company has provided registered first and second mortgages on certain land and buildings and an assignment of certain rents and all perils insurance as security for the mortgages.

The aggregate principal repayments required in each of the next five years, assuming the mortgages are renewed under similar terms and conditions, will be as follows:

| | |
|---|---|
| 2005 | $ 2,592,000 |
| 2006 | 788,000 |
| 2007 | 837,000 |
| 2008 | 889,000 |
| 2009 | 945,000 |

## 12. DUE TO RELATED PARTY

This amount is due to a director of the Company and is unsecured, bears interest at 7% (2003 – 7% to 11%) per annum payable monthly and is due on December 31, 2004. During the current year, interest expense on this amount of $35,096 (2003 - $57,089) was accrued and paid.

## 13. INCOME TAXES

A reconciliation of income taxes at statutory rates with reported taxes is as follows:

| | 2004 | 2003 |
|---|---|---|
| Income (loss) before income taxes | $ (298,296) | $ 175,286 |
| Provision for income taxes (recovery) | $ (110,265) | $ 65,908 |
| Tax effect of item not deductible for income tax purposes | 552,762 | 313,122 |
| Tax effect of items deducted for income tax purposes | (465,347) | (343,953) |
| Utilization of loss carry forwards not previously recognized | (7,055) | (35,077) |
| Unrecognized benefit of operating loss | 29,905 | - |
| Tax effect of temporary tax differences and reduction in tax rates | (37,300) | (176,100) |
| | 72,965 | (242,008) |
| Provision for future income tax (recovery) | $ (37,300) | $ (176,100) |

The significant components of the Company's future income tax assets and liabilities are as follows:

| | 2004 | 2003 |
|---|---|---|
| Future income tax assets: | | |
| Tax loss carry forwards | $ 108,315 | $ 132,481 |
| Other | 3,975 | - |
| | 112,290 | 132,481 |
| Future income tax liabilities: | | |
| Property, plant and equipment | (424,296) | (353,691) |
| Deferred charges | (382,394) | (510,490) |
| | (806,690) | (864,181) |
| Net future income tax liabilities | $ (694,400) | $ (731,700) |

The Company and its subsidiaries have available for deduction against future years' taxable income non-capital losses of approximately $288,000 expiring up to 2007. These losses have been recognized in these consolidated financial statements as a reduction of the Company's future income tax liabilities.

## 14. BANK INDEBTEDNESS

The Company has operating lines of credit totaling $625,000 available from two banks bearing interest at rates from prime plus ½% to prime plus 1% per annum.

As security, the Company has provided a demand collateral mortgage for $500,000 over land held for future development and an assignment of rents from the land.

## 15. CAPITAL STOCK

| | Number of Shares | | Amount |
|---|---|---|---|
| Authorized | | | |
| Unlimited number of voting common shares | | | |
| Unlimited number of Class A redeemable, retractable, convertible non-voting preferred shares | | | |
| Issued common shares | | | |
| Balance, April 30, 2002 | 14,873,092 | $ | 6,330,124 |
| Stock options exercised | 401,200 | | 160,480 |
| Balance, April 30, 2003 and 2004 | 15,274,292 | $ | 6,490,604 |

Included in issued share capital are 1,800 common shares of the Company which are subject to an escrow agreement and may not be transferred, assigned or otherwise dealt with without the consent of the regulatory body having jurisdiction thereon.

**Stock options**

The Company has an incentive stock option plan (the "Plan") whereby it may grant stock options to eligible employees, officers, directors and consultants at an exercise price to be determined by the Board of Directors, provided the exercise price is not lower than the market value at time of issue. The Plan provides for the issuance of up to 2,949,000 common shares with each stock option having a maximum term of ten years. The board of directors has the exclusive power over the granting of options and their vesting provisions.

**15. CAPITAL STOCK** (cont'd...)

**Stock options** (cont'd...)

Following is a summary of stock option activity:

| | Number of Options | Weighted Average Exercise Price |
|---|---|---|
| Balance, April 30, 2002 | 1,401,200 | $ 0.72 |
| Exercised | (401,200) | 0.40 |
| Balance, April 30, 2003 | 1,000,000 | 0.85 |
| Expired | (1,000,000) | 0.85 |
| Granted | 1,300,000 | 0.85 |
| Balance, April 30, 2004 | 1,300,000 | $ 0.85 |

The weighted average fair value of stock options granted during the current year was $0.27 per option.

The following stock options are outstanding and exercisable as at April 30, 2004:

| Number of Shares | Exercise Price | Expiry Date |
|---|---|---|
| 1,150,000 | $ 0.85 | August 15, 2005 |
| 150,000 | 0.85 | December 18, 2006 |

**Stock-based compensation**

As permitted by CICA Handbook Section 3870 "Stock-Based Compensation and Other Stock-Based Payments" (Section 3870"), the Company has elected to measure compensation costs using the intrinsic value-based method for employee stock options. Under this method, no compensation expense is recognized when stock options are issued, as the exercise price of each option equals the minimum of the market value at the date immediately preceding the grant. Had the compensation costs been determined based on the fair value of the options at the grant date using the Black-Scholes option-pricing model, additional compensation expense would have been recorded in the statement of operations of the period, with pro-forma results as presented below.

## 15. CAPITAL STOCK (cont'd...)

**Stock-based compensation** (cont'd...)

| | April 30, 2004 |
|---|---|
| Loss as reported | $ (328,023) |
| Compensation expense under Section 3870 | (351,546) |
| Pro-forma net loss | $ (679,569) |
| Pro-forma basic and diluted loss per common share | $ (0.0445) |

The following weighted average assumptions were used for the Black-Scholes valuation of stock options granted during the current year:

| | |
|---|---|
| Risk-free interest rate | 3.06% |
| Expected life of options | 2.89 years |
| Annualized volatility | 50.60% |
| Dividend rate | 0.00% |

## 16. RELATED PARTY TRANSACTIONS

The Company paid or accrued construction management costs of $139,513 (2003 - $137,000), administration fees of $67,892 (2003 - $62,275) and management fees of $646,467 (2003 - $486,099) to corporations controlled by two directors of the Company.

The Company has a continuing contract whereby it pays monthly administration fees of $5,350 and monthly management fees of 5% of the Company's gross revenues from its congregate care facilities to a corporation controlled by two directors of the Company.

These transactions are in the normal course of operations and are measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## 17. INTEREST EXPENSE

Interest expense was incurred as follows:

| | 2004 | 2003 |
|---|---|---|
| Debt on real estate properties | | |
| Bank and other loans | $ 35,096 | $ 57,089 |
| Mortgage | 9,786 | 10,550 |
| Mortgages payable | 2,116,224 | 1,865,327 |
| Loan payable | - | 128,837 |
| | 2,161,106 | 2,061,803 |
| Less interest expense capitalized to: | | |
| Construction-in-progress | 5,886 | 223,558 |
| Deferred charges | - | 524,711 |
| | 5,886 | 748,269 |
| | $ 2,155,220 | $ 1,313,534 |

## 18. FINANCIAL INSTRUMENTS

**Fair value of financial instruments:**

The following table presents the carrying amounts and fair values of the Company's financial instruments:

| | 2004 | | 2003 | |
|---|---|---|---|---|
| | Carrying Amount | Fair Value | Carrying Amount | Fair Value |
| Financial liabilities: | | | | |
| Due to related party | $ 500,000 | $ 500,000 | $ 500,000 | $ 500,000 |
| Debt on real estate properties | 160,740 | 160,740 | 168,546 | 168,546 |
| Mortgages payable | 35,195,128 | 32,234,235 | 34,339,232 | 36,902,666 |

For certain of the Company's financial instruments, including cash, segregated cash, accounts receivable, other receivables, accounts payable and accrued liabilities, construction accounts payable and bank indebtedness, the carrying amounts approximate their fair values due to the immediate or short-term maturity of these financial instruments.

## 18. FINANCIAL INSTRUMENTS (cont'd...)

The fair values of amounts due to related party, debt on real estate property and fixed rate mortgage payables are determined by discounting the future contractual cash flows under current financing arrangements at discount rates which represent borrowing rates presently available to the Company for loans with similar terms and maturity.

The fair value of amounts due from related companies is not determinable as they have no fixed repayment terms.

**Credit risk:**

The Company is exposed to credit risk only with respect to uncertainties as the timing and amount of collectibility of accounts receivable. The Company mitigates credit risk through standard credit and reference checks.

**Interest rate risk:**

Interest rate risk arises from the possibility that the value of, or cash flows related to, a financial instrument will fluctuate as a result of changes in market interest rates. The Company is exposed to financial risk from the interest rate differentials between the market rate and the rates used on their financial instruments.

The Company manages its financial instruments and interest rate risks based on its cash flow needs and with a view to minimize interest expense.

## 19. SEGMENTED INFORMATION

The Company operates in Canada in two business segments being the development and sale of real estate properties and the rental of congregate care facilities. The accounting policies of the segments are the same as those described in the summary of significant accounting policies. There are no inter-segment sales.

| | Real Estate Properties | Congregate Care | Other | Total |
|---|---|---|---|---|
| **2004** | | | | |
| Revenues from external customers | $ 89,394 | $ 12,063,981 | $ - | $ 12,153,375 |
| Interest revenue | - | - | 63,971 | 63,971 |
| Interest expense | 44,882 | 2,110,338 | - | 2,155,220 |
| Amortization | 16,775 | 1,458,895 | - | 1,475,670 |
| Future income tax recovery | - | - | 37,300 | 37,300 |
| Net income (loss) | (30,962) | 760,653 | (990,687) | (260,996) |
| Total assets | 1,922,630 | 38,157,725 | 176,801 | 40,257,156 |
| Capital expenditures | - | 244,455 | - | 244,455 |

*- Continued -*

## 19. SEGMENTED INFORMATION (cont'd...)

| | Real Estate Properties | Congregate Care | Other | Total |
|---|---|---|---|---|
| *Continued...* | | | | |
| **2003** | | | | |
| Revenues from external customers | $ 202,311 | $ 7,926,696 | $ - | $ 8,129,007 |
| Interest revenue | - | - | 72,987 | 72,987 |
| Interest expense | 67,639 | 1,245,895 | - | 1,313,534 |
| Amortization | 38,215 | 798,367 | - | 836,582 |
| Future income tax recovery | - | - | 176,100 | 176,100 |
| Net income (loss) | (97,625) | 945,477 | (560,017) | 287,835 |
| Total assets | 1,990,907 | 37,509,090 | 1,603,988 | 41,103,985 |
| Capital expenditures | - | 499,445 | - | 499,445 |

## 20. CONTINGENCIES

The Company is involved in various claims and legal actions in the ordinary course of business. In the opinion of management, the ultimate disposition of these matters will not have a material adverse effect on the Company's financial position and results of operations.

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Darryl Adrian
William Bomhof
Chris G. Denford
Gordon A.C. Denford
David L. Tonken

## Officers

Gordon A.C. Denford, President

Chris G. Denford, Vice-President, Development

William Bomhof, Vice-President, Construction

Patricia Towne, Vice-President, Administration

## Auditors

Davidson & Company,
Vancouver, British Columbia

## Legal Counsel

Jones Emery Hargreaves Swan
Victoria, British Columbia

Macleod Dixon
Calgary, Alberta

## Bankers

Canadian Western Bank
Bank of Montreal
Victoria, British Columbia

## Transfer Agent

CIBC-Mellon Trust Company
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TSX Venture Exchange
Ticker Symbol "BWK"

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